

Economic Costing Estimate

MEMORANDUM FOR:

Per

[Redacted]

the drafter

there for the IIM on Economic Costing paper will be:

[Redacted]

Date

FORM 101 USE PREVIOUS
5-75 EDITIONS

STAT

STAT



DEFENSE INTELLIGENCE AGENCY

WASHINGTON, D.C. 20340. 6134

Executive Registry

87-1607X

17 APR 1987

U-0675/DE-1

MEMORANDUM FOR THE DIRECTOR OF CENTRAL INTELLIGENCE

SUBJECT: Request for National Intelligence Estimate on Dollar Costing of Warsaw Pact Military Spending

1. The current methodology used for costing Soviet and non-Soviet Warsaw Pact (NSWP) defense efforts in dollar terms has been in use for a number of years. It has required considerable effort and resources, mostly on the part of CIA, but to some extent on the part of other agencies as well. Given this investment, we believe that now is an appropriate time to take a fresh look at this direct costing methodology, particularly as a new generation of weapons begins production and requires new costing efforts.

2. There has been increasing use of dollar cost comparisons of Soviet-U.S. and NATO-Warsaw Pact defense costs, but often with insufficient understanding on the part of policymakers as to how and why we do such costing and its limitations. A definitive document on dollar costing would serve to clarify a number of issues.

a. It would provide community agreed results of such comparisons as NATO and Warsaw Pact costs and Soviet and U.S. defense costs.

b. It would provide the strengths and weaknesses of the methodology, the definitions (i.e., inclusions and omissions) used in making the estimates, the limitations of the data itself, the confidence levels associated with the various parts of the methodology making up the estimate, and the caveats on the use of the estimates.

c. It would address the detail of the methodology itself, to include such items as the costs of the equipment, the last time such items were costed, and the various ways in which different items are actually costed.

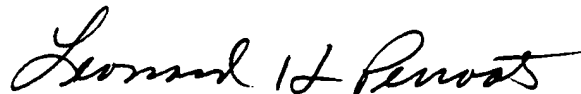
d. It could also provide a review of the non-U.S. NATO costs and their applicability to these comparisons.

3. The review of the methodology would serve as a basis for an assessment of our ability to cost the next generation of weapons systems, and to identify the extent of the gaps in our knowledge of weapon systems.

4. Through the process of developing our own budget proposals, we expect that policymakers will rely even more on dollar cost comparisons. The usefulness of such comparisons would be greatly

enhanced if we could provide a better understanding of the methodology involved and the limitations of the numbers contained in the estimates.

5. DIA strongly recommends that an estimate on Soviet and NSWP dollar costing be undertaken, as well as a review of non-U.S. NATO costs. DIA is prepared to provide full support to this effort. In view of the importance of the issue, we hope that work on this estimate could begin soon.



LEONARD H. PERROOTS
Lieutenant General, USAF
Director